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C O N F I D E N T I A L SECTION 1 OF 6 VALLETTA 0376

E.O. 11652: GDS
TAGS: PFOR, US, MT
SUBJECT: PARM - ANNUAL POLICY AND RESOURCE ASSESSMENT - PART I

REF: (A) CERP 0001, (B) STATE 039094,
(C) 76 VALLETTA 0141, (D) 76 STATE 075940,

A. U.S. INTERESTS IN MALTA

1. U.S. BILATERAL INTERESTS IN MALTA ARE LIMITED. WE DO NOT HAVE MAJOR POLITICAL OR ECONOMIC TIES WITH THE MALTESE, NOR DO WE EXPECT TO DEVELOP SUCH TIES OVER THE NEXT FEW YEARS. MALTA HAS NATURAL AND HISTORICAL TIES WITH THE UK AND ITALY, AND WITH OTHER WESTERN EUROPEAN MEMBERS OF THE EC AND NATO, WHICH OVERSHADOW ITS RELATIONSHIP WITH THE UNITED STATES BUT WHICH CAN SERVE OUR LIMITED INTERESTS HERE.

2. OUR MAJOR INTEREST IN MALTA REMAINS A CONCERN ABOUT ITS POSITIVE (OR NEGATIVE) ROLE IN MEDITERRANEAN SECURITY. WE DO NOT WANT SOVIET OR OTHER ANTI-NATO MILITARY FORCES TO HAVE ACCESS TO MALTA'S HARBORS, AIRFIELDS OR SHIP REPAIR AND FUEL FACILITIES. WE WOULD PREFER THAT NATO, OR INDIVIDUAL ALLIANCE GOVERNMENTS, CONTINUE TO
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HAVE AIR AND NAVAL ACCESS TO MALTA IN SOME FORM AFTER THE NATO-FINANCED BRITISH/MALTESE MILITARY FACILITIES AGREEMENT EXPIRES IN 1979.

3. HOWEVER, THE CLEARLY STATED POLICY OF PRIME MINISTER DOM MINTOFF IS FOR MALTA TO DECLARE ITS "NEUTRALITY" INSTEAD, AND TO DENY THE USE OF MALTESE FACILITIES TO

ALL FOREIGN ARMED FORCES AFTER 1979.

4. THIS CONCEPT OF FUTURE MALTESE NEUTRALITY IS ONE WITH WHICH THE EMBASSY BELIEVES WE CAN LIVE. ALTHOUGH IT WOULD MEAN THE LOSS OF WHAT NATO NOW GAINS THROUGH THE BRITISH MILITARY PRESENCE, IT WOULD, AT THE SAME TIME, ASSURE THE CONTINUANCE OF SOVIET DENIAL.

5. THE KEY ISSUE IS HOW MUCH, IF ANYTHING, THE NATO GOVERNMENTS (INCLUDING THE U.S.) MIGHT BE WILLING TO ASSIST THE MALTESE FINANCIALLY AFTER 1979. THE ECONOMIC VIABILITY OF THIS SMALL, VIRTUALLY RESOURCELESS COUNTRY IS ALMOST CERTAINLY DEPENDENT ON SOME CONTINUED LEVEL OF OUTSIDE MONETARY SUPPORT SUCH AS LOANS OR INVESTMENTS. OTHERWISE, MALTESE NEUTRALITY MIGHT WELL NOT BE ECONOMICALLY SUSTAINABLE, EVEN AT A REDUCED STANDARD OF LIVING FOR THE AVERAGE MALTESE. SUCH AN EVENTUALITY COULD LEAD THE MALTESE TO REVERSE THEMSELVES AND TRY TO SELL THEIR MILITARILY USEFUL FACILITIES TO THE HIGHEST BIDDER, A BIDDER WHO COULD WELL BE INIMICAL TO U.S. INTERESTS.

B. OVERVIEW

1. THE SUCCESS OF THE MALTA LABOR PARTY IN THE SEPTEMBER MALTESE ELECTIONS PROMISES FIVE MORE YEARS OF PRIME MINISTER DOM MINTOFF'S DOMINEERING, ONE-MAN STYLE OF GOVERNMENT. ALTHOUGH THE ELECTION RESULTS WERE CLOSE, THE OUTCOME HAS REINFORCED MINTOFF'S DETERMINATION TO CONFIDENTIAL

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CHART A COURSE FOR MALTA AFTER 1979 WHICH INCLUDES A FINAL ELIMINATION OF MALTA'S HISTORIC "FORTRESS IMAGE," AN INCREASINGLY CLOSE IDENTIFICATION WITH THE NON-ALIGNED WORLD, SUPPORT FOR THE MIDDLE EAST POLICIES OF THE ARAB STATES, THE CONTINUATION OF A SPECIAL RELATIONSHIP WITH LIBYA, AND THUS THE POSSIBILITY OF A FURTHER LESSENING OF MALTA'S TIES WITH WESTERN EUROPE.

2. BEFORE THE ELECTION, MINTOFF PROPOSED THAT MALTESE NEUTRALITY AFTER 1979 SHOULD BE GUARANTEED BY A NUMBER OF WESTERN EUROPEAN AND ARAB COUNTRIES WITH SPECIFIC INTERESTS IN MEDITERRANEAN AFFAIRS, PARTICULARLY ITALY, FRANCE, LIBYA AND ALGERIA, IN EXCHANGE FOR THE PERMANENT ELIMINATION OF FOREIGN MILITARY FORCES FROM MALTA. ALONG WITH THIS CONCEPT, MINTOFF WANTS THE WITHDRAWAL OF BOTH THE SIXTH FLEET AND THE SOVIET FLEET FROM THE MEDITERRANEAN, SO AS TO REMOVE THE INFLUENCE OF THE TWO SUPER POWERS (WHICH HE SEES AS OPPOSED TO THE INTERESTS OF MALTA AND ITS NEIGHBORS) ON MEDITERRANEAN

AFFAIRS.

3. MINTOFF'S MAJOR PROBLEM IN LEADING MALTA SUCCESSFULLY DOWN THE PATH TOWARD HIS BRAND OF NEUTRALISM IS THE FORMIDABLE TASK OF ECONOMIC SURVIVAL AFTER THE BRITISH MILITARY WITHDRAWAL. DESPITE SOME ECONOMIC PROGRESS OVER THE PAST DECADE, MALTA REMAINS A COUNTRY WITHOUT NATURAL RESOURCES AND WITH AN ENDEMIC UNEMPLOYMENT PROBLEM. THE RELATIVELY HIGH MALTESE STANDARD OF LIVING CANNOT BE MAINTAINED INDEFINITELY WITHOUT SOME FORM OF OUTSIDE HELP.

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4. MALTA HAS ALWAYS BEEN DEPENDENT ON MONETARY SUBSIDIES. SINCE 1972, THESE HAVE COME MAINLY FROM THE NATO "BASE RENTAL" PAYMENTS, AMOUNTING TO SOME DOLS 36 MILLION ANNUALLY, PLUS AN ESTIMATED ADDITIONAL DOLS 40 TO 50 MILLION A YEAR IN LOCAL REVENUE GENERATED FROM THE BRITISH MILITARY PRESENCE IN THE ISLAND. TOGETHER, THESE SOURCES AMOUNTED TO SOME 17 PERCENT OF MALTA'S GROSS DOMESTIC PRODUCT IN 1976. BY MARCH 31, 1979, THESE OUTSIDE SOURCES OF INCOME WILL NO LONGER BE AVAILABLE TO MINTOFF (THE LAST NATO PAYMENTS ACTUALLY WILL BE MADE IN THE FALL OF 1978). IN ADDITION, HE FACES A SERIOUS NEED FOR NEW JOBS, AT LEAST 23,000 BY HIS OWN CALCULATIONS.

5. IN ORDER TO COUNTERACT THESE SUBSTANTIAL FINANCIAL LOSSES AND TO MEET HIS JOB TARGET, MINTOFF WANTS THOSE COUNTRIES WHICH AGREE TO GUARANTEE MALTESE NEUTRALITY ALSO TO ENTER INTO AN AGREEMENT TO ASSURE MALTA'S "ECONOMIC VIABILITY" AFTER 1979, CLAIMING THAT SUCH

SUPPORT IS NOT ONLY "DUE" MALTA BUT ALSO IN THE SELF INTEREST OF MALTA'S MEDITERRANEAN NEIGHBORS. DESPITE CLAIMS TO THE CONTRARY, IT IS CLEAR THAT WHAT MINTOFF WANTS (AND EXPECTS), IS TO CAJOLE OTHER COUNTRIES INTO CONTINUING TO SUBSIDIZE THE MALTESE ECONOMY AND THE CURRENT MALTESE WAY OF LIFE AFTER THE BRITISH ARMED
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FORCES DEPART.

6. MINTOFF'S MAIN WEAPON AT THE MOMENT IN HIS EFFORTS TO EXTRACT FURTHER SUBSIDIES IS TO THREATEN THAT IF THE WESTERN EUROPEANS DO NOT AGREE TO HIS FINANCIAL DEMANDS, THEN HE WILL TURN TO THE ARABS (ESPECIALLY HIS FRIEND QADHAFI) FOR SUCH SUPPORT. HE OBVIOUSLY IS COUNTING ON NATO CONCERN OVER THE MILITARY DANGERS OF POSSIBLE LIBYAN CONTROL OF MALTA TO ENABLE HIM TO EXTRACT WHAT HE WANTS FROM THOSE WESTERN EUROPEAN GOVERNMENTS WITH MAJOR INTERESTS IN MEDITERRANEAN SECURITY.

7. THERE DOES NOT APPEAR TO BE ANY SUBSTANTIAL DOMESTIC OBJECTION TO MINTOFF'S DESIRE TO ELIMINATE FOREIGN MILITARY FORCES FROM MALTESE SOIL; EVEN THE OPPOSITION NATIONALIST PARTY HAS ACCEPTED THIS. HOWEVER, THERE IS CONSIDERABLE DISAGREEMENT OVER WHERE MALTA'S POLITICAL AND SECURITY INTERESTS LIE. A LARGE NUMBER OF MALTESE, INCLUDING EVEN SOME LABOR PARTY SUPPORTERS ON A PRIVATE BASIS, BELIEVE THAT MALTA BELONGS WITH WESTERN EUROPE, NOT WITH THE ARAB WORLD. THE NATIONALISTS ARE ADAMANTLY PRO-EUROPEAN, AND IT IS DOUBTFUL THAT THERE IS ANY REAL DEPTH OF SUPPORT AMONG THE MALTESE PUBLIC FOR MINTOFF'S POLITICAL FONDNESS FOR THE ARABS.

8. DESPITE HIS PUBLIC STATEMENTS, THERE ARE INDICATIONS THAT EVEN MINTOFF IS BEGINNING TO BE LESS CERTAIN OF THE BEST METHOD OF ASSURING MALTA'S FUTURE. HE APPEARS NOW TO BE PLANNING AT LEAST SOME TACTICAL POLICY SHIFTS DESIGNED TO PROMOTE CLOSER TIES WITH WESTERN EUROPE AND THE UNITED STATES, THROUGH INCREASED INVESTMENTS IN THE MALTESE ECONOMY, AS A PARTIAL SOLUTION TO HIS ECONOMIC PROBLEMS. IN A TRIP HE MADE TO LONDON IN LATE MARCH, MINTOFF EMPHASIZED THAT THERE WAS "ROOM FOR BRITISH COOPERATION" WITH MALTA AFTER 1979, ESPECIALLY IN THE INVESTMENT FIELD. THERE COULD BE MUCH MORE EVIDENCE OF
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THIS TYPE OF SHIFT IN MINTOFF'S TACTICS AS THE BRITISH MILITARY RUNDOWN ACCELERATES, A SHIFT WHICH DOUBTLESS WOULD BE GENERALLY APPROVED BY MOST MALTESE.

9. THE MEMBERS OF THE EUROPEAN COMMUNITY HAVE ASKED ITALY AND FRANCE TO DISCUSS MINTOFF'S PROPOSALS AND PROBLEMS WITH HIM AND TO EXPLORE POSSIBLE AREAS OF MUTUAL INTEREST THAT MIGHT LEAD TO A SATISFACTORY SOLUTION. PROGRESS HAS BEEN SLOW, DUE LARGELY TO THE VAGUENESS OF MINTOFF'S IDEAS, AND TO EUROPEAN RELUCTANCE TO SIGN A BLANK CHECK FOR MALTA'S FUTURE. MINTOFF IS BEGINNING TO SHOW SIGNS OF IMPATIENCE, WHICH IS TYPICAL OF HIS NEGOTIATING STYLE, AND HE IS BECOMING INCREASINGLY VOCAL IN HIS THREATS TO TURN TO THE "LIBYAN CONNECTION" IF THE EUROPEANS DO NOT MOVE FASTER. WHILE MINTOFF'S LIBYAN THREAT IS PROBABLY NOT AN IDLE ONE, IT MAY NOT BE A VERY VIABLE ALTERNATIVE IN FINANCIAL TERMS.

10. WE ARE SYMPATHETIC CONCERNING MALTA'S ECONOMIC PROBLEMS, AND WOULD WELCOME CONTINUED EUROPEAN INTEREST IN, AND SUPPORT FOR, MALTA. HOWEVER THE U.S. ROLE IN THIS DIALOGUE HAS BEEN A PASSIVE ONE, SO AS NOT TO SHOW ANY UNDUE U.S. INTEREST THAT MINTOFF MIGHT SEEK TO EXPLOIT, AS HE DID DURING THE 1971-1972 "CRISIS" NEGOTIATIONS OVER A CONTINUED BRITISH MILITARY PRESENCE IN MALTA. FOR SIMILAR REASONS, THE ATTITUDE OF THE BRITISH GOVERNMENT HAS BEEN CORRESPONDINGLY RESTRAINED, AND THE BRITISH ARE REMAINING AS MUCH IN THE BACKGROUND OF THE DISCUSSIONS WITH MINTOFF AS THEY CAN. THE MAIN BRITISH INTEREST TOWARD MALTA AT THIS TIME IS TO GET OUT, AT THE LEAST POSSIBLE COST AND ON AS AMICABLE A BASIS AS POSSIBLE, SO AS TO PROTECT AND ENHANCE THE SIZEABLE UK INVESTMENT HERE.

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11. WE WOULD PREFER THAT WESTERN EUROPE CONTINUE TO BE MALTA'S PRIMARY SOURCE OF ASSISTANCE AFTER 1979, IN THE CONTEXT OF ARRANGEMENTS THAT ALLOW SOME DEGREE OF CONTINUED WEST EUROPEAN MILITARY ACCESS. WHETHER THE LIBYAN ALTERNATIVE IS A REAL ONE, ONE WHICH MINTOFF ACTUALLY WOULD TURN TO IF HIS DEMANDS ARE NOT MET, IS NOT CLEAR TO US. MINTOFF CLEARLY PREFERS TO HAVE THE BEST OF BOTH WORLDS. HE IS NO FOLL, AND HE KNOWS FULL WELL THAT ANYTHING HE MIGHT OBTAIN FROM QADHAFI WILL HAVE MANY MORE STRINGS ATTACHED THAN WOULD EUROPEAN ASSISTANCE. BUT THERE IS ALSO SOMETHING OF THE ARAB IN HIM, INCLUDING A COMPLEX ABOUT THE WEST HAVING LORDED IT WOVER THIS PART OF THE WORLD FAR TOO LONG.

12. SICNE 1972, THE NATO CONCERN OVER KEEPING THE RUSSIANS OUT OF MALTA HAS BROUGHT SUBSTANTIAL BENEFITS TO THE MALTESE. IF THE MALTESE INTEND TO CONTINUE TO PROHIBIT RUSSIAN ACCESS AFTER 1979, WOULD THERE BE ANY JUSTIFICATION FOR THE WEST TO SUBSIDIZE MINTOFF'S GOVERNMENT FURTHER, TO PAY HIM FOR WHAT HE IS GOING TO DO ANYWAY? ALTERNATIVELY, IS THE THREAT OF LIBYAN INFLUENCE IN MALTA SUFFICIENT TO WARRANT ADDITIONAL PAYMENTS TO MINTOFF TO AVOID THIS? MINTOFF CERTAINLY HOPES, EVEN EXPECTS, TO BE ABLE TO EXTRACT ADDITIONAL FINANCIAL HELP

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FROM SOMEONE, PREFERABLY IN THE FORM OF GRANTS, BUT AT LEAST AS LOANS OR INCREASED INVESTMENTS IN THE MALTESE ECONOMY. THIS WILL BE THE INCESSANT THEME OF ALL GOVERNMENT-TO-GOVERNMENT DISCUSSIONS WITH HIM OVER THE NEXT SEVERAL YEARS.

13. DURING THIS PERIOD, WE SHOULD CONTINUE TO DO WHAT WE CAN, AND IN AS MANY WAYS AS WE CAN, TO ENCOURAGE THE MALTESE TO DO MORE TO HELP THEMSELVES, RATHER THAN SIMPLY DEMANDING AN ENDLESS NUMBER AND VARIETY OF GIFTS AND GRANTS FROM THE HANDIEST TARGETS. OUR COURSES OF ACTION IN THE SHORT TERM SHOULD BE AS SUPPORTIVE OF THIS LONG RANGE OBJECTIVE AS POSSIBLE.

C. U.S. OBJECTIVES AND COURSES OF ACTION

1. OUR BASIC OBJECTIVES IN MALTA, WITH WHICH THIS EMBASSY CONCURS, WERE STATED IN THE DEPARTMENT'S INSTRUCTIONS OF FEBRUARY 22, 1977 (DEPTEL 39094). THESE ARE:

--- THE CONTINUED DENIAL OF SOVIET ACCESS TO MALTA'S

FACILITIES, WHILE PRESERVING THE OPTION
OF ULTIMATE RENEWED ACCESS BY THE SIXTH FLEET.

--- THE PRESERVATION OF MALTA'S TRADITIONAL ORIENTATION TO
THE WEST, INCLUDING ACCESS BY AT LEAST THE ARMED FORCES OF
OUR EUROPEAN ALLIES TO MALTA'S FACILITIES.

2. THE EMBASSY ALSO AGREES WITH THE GUIDELINES INCLUDED
IN THE DEPARTMENT'S INSTRUCTIONS TO THE EFFECT THAT
OUR CURRENT POSTURE HERE SHOULD BE ONE OF LOW KEY
ACCEPTANCE OF MALTA'S DESIRE FOR A NEUTRAL ORIENTATION,
WHILE KEEPING OUR EUROPEAN ALLIES OUT FRONT IN WORKING OUT
FUTURE ASSISTANCE AND SECURITY RELATIONSHIPS. BUT THIS LEAVES
UNANSWERED CERTAIN POLICY ISSUES WHICH WE POSE BELOW IN A
REVIEW OF OUR OPTIONS AND IN RECOMMENDED COURSES OF ACTION.
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OPTIONS

1. WE COULD BEGIN PROBING FOR A RESUMPTION OF SIXTH
FLEET ACCESS, POSSIBLY STARTING WITH RENEWED INQUIRIES
(OF THE KIND ELLSWORTH MADE) FOR NON-COMBATTANT SHIP
VISITS. USE OF THIS OPTION WOULD NEED TO BE COORDINATED
CAREFULLY WITH THE ITALIANS AND THE FRENCH AND WOULD
REST ON THE ASSUMPTION THAT MINTOFF IS APPROACHING THE
POINT WHERE THE ECONOMIC REALITIES OF 1979, AND A
JUDGMENT ON HIS PART THAT THE LIBYAN OPTION IS NOT WORTH
THE CANDLE, MAY COMBINE TO CAUSE HIM SERIOUSLY TO CONSIDER
A MAJOR SHIFT IN HIS CURRENT POSTURE. IT WOULD NEED TO
BE ACCOMPANIED BY SUFFICIENT U.S. BILATERAL ASSISTANCE
INDUCEMENTS TO MAKE SUCH A SHIFT POLITICALLY AND
ECONOMICALLY ATTRACTIVE TO MINTOFF.

2. WE COULD URGE OUR EUROPEAN ALLIES TO BE MORE
RESPONSIVE TO MINTOFF'S PRESSURE TACTICS, RECOGNIZING
THAT THIS COULD REQUIRE AN EARLY ASSISTANCE INPUT ON
OUR PART AS WELL. THIS OPTION WOULD COMMEND ITSELF
IF WE CONCLUDE THAT MINTOFF MEANS WHAT HE SAYS ABOUT
A SHORT-TERM RESORT TO HIS LIBYAN ALTERNATIVE, AND IF
WE CONCLUDE THAT A CLOSER MALTESE-LIBYAN LIAISON, TO
THE EXCLUSION OF EUROPE, WOULD BE SERIOUSLY DETRIMENTAL
TO OUR INTERESTS IN THE MEDITERRANEAN.

3. WE COULD URGE OUR EUROPEAN ALLIES IN EFFECT TO CONTINUE
CALLING MINTOFF'S BLUFF, PLAYING FOR TIME TO THE POINT
WHERE HE WILL BE FORECED TO BEGIN BALANCING HIS DEMANDS
WITH OFFERS, BUT WITH OFFERS OF SOME ATTRACTIVENESS TO US.
THIS WOULD INVOLVE A JUDGMENT THAT MINTOFF WOULD BE
UNLIKELY TO JEOPARDIZE HIS OWN OR MALTA'S FUTURE IN A

SOLO COURSE WITH LIBYA OR, EVEN IF HE WERE TO TAKE THAT
COURSE, THAT WE COULD LIVE WITH IT. IT WOULD ASSUME THAT
A CONTINUED CHINESE PRESENCE AND MINTOFF'S BASIC ANTIPATHY
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TO THE RUSSIANS WOULD INSURE A CONTINUED DENIAL OF
MALTA'S FACILITIES TO THE SOVIETS.

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4. WE COULD ENCOURAGE MINTOFF IN THE DIRECTION OF A KIND
OF NEUTRALITY THAT INVOLVED EQUAL ACCESS BY US AND THE
RUSSIANS TO MALTA'S FACILITIES. THIS OPTION WOULD INVOLVE
A JUDGMENT ON OUR PART THAT ACCESS BY THE SIXTH FLEET
WAS IMPORTANT ENOUGH TO WARRANT HAVING THE SOVIET FLEET
AROUND TOO, AND/OR THAT IN ANY COMPETITION IN GRAND
HARBOUR FOR THE LOYALTY OF THE MALTESE WE WOULD HAVE
NO CONCERN AS TO OUR WINNING THE CONTEST.

RECOMMENDED COURSES OF ACTION

LIKE ALL OPTIONS, THOSE ABOVE ARE NOT NECESSARILY
MUTUALLY EXCLUSIVE. FOR THE PRESENT, HOWEVER, WE BELIEVE
OPTION THREE MEETS OUR CURRENT POLICY NEEDS AND DOES
NOT JEOPARDIZE OUR LONGER TERM INTERESTS. WE DOUBT VERY
MUCH THAT MINTOFF IS YET PREPARED TO MAKE THE PUBLIC
POLICY SHIFT THAT SUCCESSFUL PURSUIT OF OPTION ONE WOULD
ENTAIL. OPTION TWO SUFFERS FROM THE REVERSE OF THAT

COIN; WE BELIEVE MINTOFF IS BEGINNING TO FEEL THE PRESSURE OF 1979, AND WE SHOULD ALLOW THAT PRESSURE TO GROW. WE DOUBT THAT MINTOFF IS SERIOUSLY CONSIDERING JEOPARDIZING HIS WESTERN OPTION BY AN EARLY AND TOTAL EMBRACE OF QADHAFI. OPTION FOUR COULD WELL BE THE ULTIMATE OUTCOME OF MINTOFF'S NEUTRALITY COURESE. WE BELIEVE WE COULD LIVE
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WITH IT, IF NECESSARY, BUT SINCE IT WOULD GIVE THE RUSSIANS SOMETHING THEY PRESUMABLY WANT AND WE DON'T NEED, WE SEE NO PRESENT MERIT IN IT IN TERMS OF A POLICY INITIATIVE.

THE ULTIMATE QUESTION FOR US ABOUT MALTA IS WHETHER WE ARE PREPARED TO PAY ANYTHING AFTER MARCH 1979 FOR OUR OBJECTIVE OF CONTINUED SOVIET DENIAL. WE HAVE PAID DOLS 9.5 MILLION ANNUALLY TO PRESERVE THIS OBJECTIVE SINCE 1972. BUT WE HAVE ALSO HAD A BRITISH MILITARY PRESENCE, WITH WHATEVER INCREMENT TO NATO AND WESTERN DEFENSE THAT THIS HAS REPRESENTED. MINTOFF WANTS THE WEST, IN EFFECT, TO CONTINUE PAYING TO KEEP THE RUSSIANS OUT, BUT THIS TIME IN THE CONTEXT OF NO WESTERN MILITARY PRESENCE, A PRO-ARAB "NON-ALIGNMENT," WITH A GUARANTEED NEUTRALITY AND "ECONOMIC VIABILITY." THE COST SEEMS EXCESSIVE, AND THE COURSES OF ACTION WE SUGGEST BELOW ARE DESIGNED TO TRY TO GET SOME BETTER RETURN FOR WHATEVER U.S. INPUT TURNS OUT TO BE NECESSARY OR DESIRABLE.

1. THAT WE ENCOURAGE THE EUROPEANS TO CONTINUE A MEASURED BUT UNHURRIED DIALOGUE WITH MINTOFF, AVOIDING OVERREACTING TO THE THREAT OF A LIBYAN "ALTERNATIVE." EVEN THE ITALIANS SEEM NOW TO APPRECIATE THE IMPORTANCE OF NOT PLAYING INTO MINTOFF'S HAND BY UNDUE REACTION TO HIS DEADLINES. MALTA'S REDUCED STRATEGIC SIGNIFICANCE PUTS TIME ON OUR SIDE, NOT ON MINTOFF'S. HE NEEDS US MORE THAN WE NEED HIM, AS MARCH 1979 DRAWS CLOSER AND THE ECONOMIC OUTLOOK BECOMES MORE DIFFICULT, WITH LIBYAN ASSURANCES (FROM WHAT WE KNOW OF THEM) NOT ALL THAT SUBSTANTIAL OR CONCRETE.

2. THAT WE DISCOURAGE THE IDEA OF ANY KIND OF FORMAL NEUTRALITY GUARANTEE FOR MALTA THAT INCLUDES LIBYA IN A MULTILATERAL UNDERTAKING. WE HOPE THE DEPARTMENT IS GIVING SOME THOUGHT TO THIS QUESTION. WE DON'T LIKE IT.
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IF MALTA UNDER MINTOFF WISHES PUBLICLY AND OFFICIALLY TO
DECLARE NEUTRALITY AS ITS CHOICE, WE AND OTHERS WITH
AN INTEREST IN MALTA CAN AND WILL TAKE ACCOUNT OF IT
AND ADJUST OUR POLICIES ACCORDINGLY. WE SEE NO
PROBLEM IN BILATERAL ARRANGEMENTS BETWEEN MALTA AND ITS
NEIGHBORS. BUT ANY FORMALLY-NEGOTIATED, MULTILATERAL
UNDERTAKING BY MALTA WITH ITS IMMEDIATE NEIGHBORS
STRIKES US AS NOT ONLY UNWIELDY BUT AS COMPLICATING
THEIR (AND OUR) FUTURE OPTIONS. IT WOULD ALSO INVOLVE
LIBYA WITH OUR EUROPEAN ALLIES IN WHAT STRIKES US AS
AN UNNATURAL AND UNDESIRABLE LIAISON.

3. THAT WE CONTINUE TO MAKE CLEAR TO OUR EUROPEAN
ALLIES THAT WE LOOK TO THEM TO CARRY THE MAIN ECONOMIC
ASSISTANCE AND INVESTMENT BURDEN HERE. WE DOUBT THAT
THIS POINT NEEDS ELABORATION. WHILE WE ACKNOWLEDGE THAT
INCREASED U.S. PRIVATE INVESTMENT WOULD BE A DESIRABLE
ADDITIONAL INPUT, AND WE ARE ENCOURAGING THIS IN EVERY
WAY POSSIBLE, U.S. INVESTMENT INEVITABLY WILL NOT BE
AS MAJOR A FACTOR IN THE MALTESE ECONOMY AS THAT OF THE
WESTERN EUROPEANS.

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4. SIMILARLY, THAT WE CONTINUE TO DISCOURAGE ANY
EXPECTATION FROM THE MALTESE OF FURTHER U.S. GRANT
ASSISTANCE. MINTOFF'S CURRENT NEUTRALITY CONCEPT DOES
NOT PROVIDE THE KIND OF POLITICAL FRAMEWORK TO JUSTIFY
SUCH ASSISTANCE, AND WE HAVE TOLD THE MALTESE SO --
POINTING OUT THAT IN ANY EVENT WE CAN BEST ASSIST MALTA
THROUGH PRIVATE INVESTMENT. BUT THE DIFFICULTY OF

ATTRACTING SUCH INVESTMENT, AND THE EXPECTATION OF OUR ALLIES THAT WE WILL HELP DEAL WITH MINTOFF, LEAVES US WITH A LIVE AND DIFFICULT ISSUE.

WE BELIEVE THAT SOME U.S. ASSISTANCE GESTURE WILL ULTIMATELY BE NECESSARY IF WE ARE TO HAVE ANY INFLUENCE ON THE POST-1979 ARRANGEMENT THAT EVOLVES HERE. IT NEED NOT BE LARGE, PARTICULARLY IF WE CAN HAVE SOME SUCCESS IN THE PRIVATE INVESTMENT SECTOR. AND THERE SHOULD BE NO SUGGESTION OF IT TO THE MALTESE, OR OUR ALLIES, AT THIS EARLY STAGE IN THEIR DISCUSSIONS. DEPENDING ON ITS NATURE AND AMOUNT, WE MIGHT BE ABLE TO CONDITION OUR ASSISTANCE ON SOME RETURN ON SECURITY GROUNDS: AT A MINIMUM THAT OUR ALLIES, IF NOT THE SIXTH FLEET, HAVE SOME DEGREE OF CONTINUED ACCESS TO GRAND HARBOR.

WE THEREFORE RECOMMEND THAT WE ACTIVELY REVIEW
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NOW WHAT KIND OF ASSISTANCE MIGHT BE FEASIBLE, BEFORE THE DOLS 9.5 MILLION LINE ITEM FOR MALTA DISAPPEARS IRREVOCABLY FROM THE AID SECURITY SUPPORTING ASSISTANCE BUDGET. WHILE WE WOULD PRECLUDE GRANT ASSISTANCE (EXCEPT IN THE EVENT OF A MAJOR SHIFT BY MINTOFF ON THE SIXTH FLEET ISSUE), WE BELIEVE A LOAN DIRECTED AT A SPECIFIC, WELL-PLANNED DEVELOPMENT PROJECT LINKED TO SALES AND INVESTMENT OPPORTUNITIES FOR U.S. FIRMS WOULD BE JUSTIFIABLE AND APPROPRIATE IN SUPPORT OF LARGER EFFORTS BY OUR ALLIES. THE CONSTRUCTION OF A SECOND PORT AT MARSAXLOKK MIGHT BE A POSSIBILITY OF THIS KIND.

5. THAT WE AVOID TAKING ANY INITIATIVE FOR THE PRESENT ON THE SIXTH FLEET ISSUE. ANY INITIATIVE ON THIS FRONT SHOULD BEST COME FROM MINTOFF. PUSHING THE ISSUE OURSELVES NOW WILL ONLY PLAY INTO HIS HANDS IN THIS EARLY STAGE OF THE POKER GAME. BUT AT APPROPRIATE OPPORTUNITIES WE SHOULD POINT OUT THAT WE THINK CONTINUED EUROPEAN NAVAL ACCESS HERE WOULD BE ECONOMICALLY BENEFICIAL TO MALTA, AND INDEED THAT WE FEEL THE SAME WAY ABOUT AN OCCASIONAL SHIP VISIT FROM THE SIXTH FLEET. MEANWHILE, WE THINK WE SHOULD FIND SMALL WAYS, SUCH AS BY OFFERING PRESENTATIONS HERE BY MUSICAL GROUPS FROM EUROPEAN-BASED U.S. MILITARY UNITS, TO REMIND THE MALTESE THAT WE ARE STILL ALIVE AND WELL AND, IN OUR SHARED CULTURE AND VALUES, A STRONG FRIEND.

6. THAT WE ENCOURAGE NATO TO ENSURE THAT CONTINGENCY STEPS ARE TAKEN TO MAKE UP FOR THE BENEFITS NOW ACCRUING FROM THE UK MILITARY PRESENCE (RECONNAISSANCE, COMMUNICATIONS, FUEL STORAGE) WHICH WILL BE LOST WITH THE UK MILITARY

WITHDRAWAL. WE ARE UNCERTAIN WHERE THEINGS STAND ON
THIS POINT. WE ARE NOT ADVOCATING ANOTHER NATO
STUDY ON MALTA. BUT AN ASSESSMENT OF THE LOSS FROM THE
UK MILITARY WITHDRAWAL, AND DECISIONS AS TO WHATEVER
ALTERNATIVES ARE JUDGED NECESSARY TO MAKE UP THE FIFFERENCE,
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ARE NOT ONLY MILITARILY ESSENTIAL BUT ALSO A POSSIBLE
TACTICAL REMAINDER TO MINTOFF (THROUGH THE ITALIANS) THAT
WE CAN LIVE WITHOUT MALTA AND AREN'T RUNNING SCARED.

7. FINALLY, THAT WE KEEP OUR OPTIONS OPEN. MINTOFF'S
CURRENT POSTURE IS LOUD AND CLEAR AND NOT PARTICULARLY
ATTRACTIVE. BUT SOME CHANGE IS POSSIBLE, PERHAPS EVEN
PROBABLE, AS THE ECONOMIC REALITIES OF 1979 BEGIN TO
SINK IN. NOT FUNDAMENTAL CHANGES, CERTAINLY NOT IN
THE SHORT RUN, BUT TACTICAL YES. MINTOFF HAS ALMOST FIVE
YEARS AHEAD OF HIM IN OFFICE; HE HAS MADE SHIFTS BEFORE;
HE COULD DO SO AGAIN. QADHAFI IS NOT THAT PERMANENT A
FIXTURE EITHER, AND MINTOFF KNOWS IT.

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ACTION EUR-12

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IT IS FOR THIS REASON THAT WE THINK OUR CURRENT
POLICY POSTURE IS EXACTLY RIGHT; I.E. A POSTURE OF
UNCONCERN AND STAYING OUT OF THE MIDDLE OF THE CURRENT
MALTESE PRESSURE TACTICS AGAINST THE EUROPEANS, WHILE
REMINDING THE GOM OF WHAT IT NEEDS TO DO ITSELF IT IT

WANTS TO IMPROVE RELATIONS WITH THE U.S. BUT FOR THE SAME REASON, WE SHOULD DO EVERYTHING WE CAN TO BUILD ON AND EXPLOIT THE SUBSTANTIAL RESERVOIR OF GOOD WILL TOWARD THE WEST, AND THE U.S. IN PARTICULAR, THAT EXISTS AMONG A LARGE MAJORITY OF THE MALTESE PEOPLE. WHILE KEEPING A GENERALLY LOW PROFILE HERE, THERE IS MUCH WE CAN DO TO REMIND THE MALTESE THAT THEIR WESTERN TIES REMAIN OF GREATER LONG RANGE VALUE TO THEIR POLITICAL AND ECONOMIC INDEPENDENCE THAN, SAY, ANY NORTH AFRICAN ALTERNATIVES.

THIS CAN TAKE MANY FORMS:

--- A QUIET BUT CONTINUING EMPHASIS IN OUR PRIVATE AND OFFICIAL CONTACTS WITH THE MALTESE ON THE POSITIVE VALUES AND PURPOSES OF WESTERN MUTUAL DEFENSE ARRANGEMENTS THROUGH NATO (QUERY: WOULD IT BE POSSIBLE FOR US TO ENCOURAGE MINTOFF'S EUROPEAN SOCIALIST COUNTERPARTS, ESPECIALLY IN GERMANY AND THE UK, TO WEIGH IN MORE HEAVILY ON THIS POINT?);
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--- RELIANCE ON THE SMALL, BUT WELL-FOCUSED USIS PROGRAM WE NOW HAVE HERE TO REMIND THE MALTESE OF THEIR DEEP CULTURAL AFFINITY WITH EUROPE AND THE U.S., BUT WHICH WE WOULD LIKE TO SEE EXPANDED BY MORE FREQUENT CU-SPONSORED CULTURAL PRESENTATIONS (WITH THE COOPERATION OF USIS ROME), AND POSSIBLY BY AN OCCASIONAL VISIT TO MALTA OF EUROPEAN-BASED U.S. MILITARY MUSICAL GROUPS;

--- CAREFUL IMPLEMENTATION OF OUR IVP PROGRAM, WHICH WE WANT AT LEAST TO MAINTAIN AT PRESENT LEVELS;

--- UTILIZATION OF THE POSITIVE ASPECTS OF THE EXPANDED AMERICAN PRESENCE HERE THAT SEVERAL HUNDRED READING AND BATES AND OTHER OIL FAMILIES ARE PROVIDING;

--- ENCOURAGING THE MALTESE TO IMPROVE THEIR DIPLOMATIC REPRESENTATION AND TRADE PROMOTION PRESENCE IN THE U.S.;

--- IMAGINATIVE SUPPORT FOR WHAT WE HOPE WILL BE GREATER MALTESE EFFORTS TO PROMOTE MALTA AS AN ATTRACTIVE PLACE FOR INVESTMENT;

--- AND A POSITIVE RESPONSE WHEN THE COST IS LOW TO SMALL REQUESTS FROM THE MALTESE THAT WILL REMIND THEM OF THE RETURNS FROM PRESERVING TO THE MAXIMUM THE FABRIC OF THEIR TRADITIONAL WESTERN TIES.

FOR THOSE WHO HAVE READ THIS FAR, WE ADD A JOLT. MINTOFF HAS LONG WANTED TO VISIT WASHINGTON. HIS

NATIONALIST PREDECESSOR, BORG OLIVIER CAME TO WASHINGTON
THREE TIMES. MINTOFF HAS HIGH, IF UNFOUNDED, EXPECTATIONS
OF CHANGES IN U.S. POLICY UNDER THE NEW ADMINISTRATION.
HE HAS NOT YET SEEMED SUFFICIENTLY TO REALIZE THAT HE
MAY NEED TO CHANGE HIMSELF IF THERE IS TO BE ANY SIGNIFICANT
IMPROVEMENT IN U.S./MALTESE RELATIONS. BUT IF WE AND OUR
ALLIES PLAY OUR CARDS RIGHT WE MAY ACCELERATE THE CHANGE
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THAT THE ECONOMIC REALITIES OF 1979 MAY BE JUST BEGINNING
TO PRODUCE IN MINTOFF'S THINKING. A WELL TIMED AND WELL
COORDINATED INVITATION TO VISIT WASHINGTON COULD PAY
WORTHWHILE DIVIDENDS IN INFLUENCING A MAN WHO IS BOTH
CONSCIOUS OF SLIGHTS AND ENORMOUSLY SUSCEPTIBLE TO
ATTENTIONS PAID HIM.

DEPARTMENT PLEASE REPEAT TO OTHER ADDRESSEES AS
APPROPRIATE. LAINGEN

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